

The Scope and Method of Economics

Opportunity Cost – the value of the next best alternative forgone

Total Cost of an activity = Cost of the activity + opportunity cost

Example: Suppose that a movie costs \$7 for tickets. However, if you did not go the Lord of the Rings: Return of the King (4 hours long) you would have worked for \$7 / hour.

1. What is the opportunity cost of going to the movie?
2. What is the total cost of going to the movie?
3. Would the opportunity cost of going to the movie change if the price of the movie increases to \$10?

Opportunity Cost = working value = $4 * 7 = 28$

Cost of attending LOTR: ROTK = $28 + 7 = 35$

No; the opportunity cost remains unchanged at \$28. However, the total cost of the movie increases to \$38.

Opportunity costs arise because of **SCARCITY**.

Efficient Markets – a market in which there are no advantageous trades available to any parties.

Microeconomics – examines the functioning of individual decision making units (the household or the firm).

Macroeconomics – examines the economic behavior of aggregates.

Positive Economics – “what is;” determines the outcome of behavior

Normative Economics – “what ought to be;” asks if outcomes are good or bad

Pay close attention to p.10 “Expressing Models in Words, Graphs, and Equations”